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DEPT FOR NEA/IPA; NSC FOR KUMAR; TREASURY FOR KNOWLES/MOGER

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TAGS: [ECON](#) [EFIN](#) [EAID](#) [ENRG](#) [KWBG](#) [PREL](#) [KPAL](#) [IS](#)

SUBJECT: GAZA BRANCHES OF PALESTINIAN BANKS TURN AWAY  
SHEKELS

¶1. (C) Summary: Palestinian bank branches in Gaza have been turning away large Israeli Shekel (NIS)-denominated deposits, according to the Palestine Monetary Authority (PMA), Gazan merchants, and Palestinian bankers. Contacts in the gas sector in Gaza voiced concerns that they may not have enough money in the bank at the end of January to pay for additional imports of heating and cooking gas. Banking contacts said that they have more NIS in cash in their branches in Gaza than their vaults can hold. The PMA has been in recent contact with the Israeli Coordinator of Government Activities in the Territories (COGAT) to reiterate a request to move excess and spoiled shekel notes from Bank of Palestine (BoP) branches in Gaza for deposit in Israel. PMA officials also confirmed that they had received details of an Israeli mechanism to allow for the transfer of Israeli National Insurance benefits to Gazans who previously worked in Israel, as was reported in the Israeli press on January 24. End summary.

#### Background

¶2. (C) The Palestinian banking sector experienced severe cash shortages due to hoarding and changes in Israeli banking policies during December 2008-January 2009 combat operations in Gaza. Shekel holdings began to grow after COGAT began allowing regular NIS transfers into Gaza in April 2009. Palestinian banks still have not been permitted to transfer cash out of Gaza.

Vaults are full, but accounts are short

¶3. (C) PMA Governor Jihad al-Wazir told Treasury Attache on January 25 that Gaza branches of Palestinian banks had stopped accepting deposits from fuel stations and other cash-intensive businesses. He was concerned that this would exacerbate an already severe fuel shortage in Gaza, as fuel stations would not be able to replenish their accounts and thus pay for heating and cooking fuel from Israel via monthly wire transfers. Note: Cooking and heating fuel are too combustible to be smuggled into Gaza through tunnels, unlike gasoline. End note.

¶4. (C) According to al-Wazir, the PMA has sent five written requests to COGAT since August to move spoiled and/or excess shekels out of Gaza branches, with no response. Al-Wazir said that he continues to monitor the sources of excess shekels, and that the trend can be attributed to the return of confidence to the banking sector following the resumption of shekel transfers in the spring of 2009. Al-Wazir pointed out that COGAT permitted the transfer of NIS 370 million into Gaza in 2009, of which he now needs to move NIS 200 million

out. Al-Wazir emphasized that the shekels removed from Gaza would need to be deposited with Israeli banks, because most West Bank branches of Palestinian banks likewise hold excess shekels.

15. (C) BoP Chairman Hashim Shawa confirmed that his bank's branches in Gaza had been turning away large cash deposits intermittently for several weeks. Shawa said that the magnitude of the problem was too large for other Palestinian banks in Gaza to help BoP absorb, since BoP has roughly 60 percent of the market share in Gaza and more than NIS 200 million in surplus. Shawa said he was aware of PMA efforts to secure GOI permission to move the cash out of Gaza; he would also be drafting a direct request (for the first time) to a senior COGAT official.

16. (C) Shawa expressed concerned that confidence in the banking sector in Gaza would further erode as the situation became widely known. Gazans are increasingly and illegally holding accounts with money changers, who benefit from arbitrage opportunities created by the severe excess of NIS and shortage of USD in Gaza, he said. This was one more challenge placed on the banking system by Israeli restrictions on cash shipments, along with hoarding, increased money laundering, a black market for exchange, and increased reliance on smuggling, according to Shawa.

Gaza merchants look for other ways to make payments  
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17. (C) Maamon Khozendar, a prominent Gaza businessman and one of the largest fuel importers in Gaza, explained to Treasury Attache that his company wires NIS 3 million to the

Palestinian Authority (PA) in Ramallah at the end of each month in order to cover the cost of importing cooking and heating fuel from Israel. The PA then pays the Israeli provider. He said that he was concerned that by January or February 2010, he would be unable to cover the wire transfer due to the low level of deposits in his account. Khozendar said that BoP had turned away an NIS 800,000 deposit from his business over the weekend and asked, "Where else in the world do banks turn away deposits?" Khozendar said that his business generates NIS 300,000-500,000 in revenue daily, and that due to BoP's recent refusal to take his deposits, he is now holding NIS 9 million in a cash box in his office.

18. (C) Khozendar said that he has been forced to seek other ways to dispose of the large amount of cash generated by his business; he said that has found people in Gaza who will write him a check for as much as NIS 10,000 of his cash, plus one half percent, and that he was prepared to take large amounts of cash across Erez for deposit in Ashkelon to pay Israeli suppliers.

Proposed mechanism to restore  
Israeli social security payments to Gaza  
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19. (SBU) PMA officials confirmed that they had received details of an Israeli mechanism for the transfer of Israeli National Insurance benefits to Gazans who previously worked in Israel, as was reported in the Israeli press on January 24. PMA officials said that the Israeli Ministry of Defense had approved the proposed mechanism without inclusion of the latest set of Palestinian amendments. PMA officials had since been in touch with COGAT and were confident that the differences could be resolved. Note: Israeli and PA officials have been negotiating the terms of such transfers for almost a year. End note. PMA Governor Jihad al-Wazir said that Hamas had already reacted to the Israeli announcement (characterized by the Israeli daily Haaretz as enabling the PA to bolster its links with Gaza), by stating that it will not cooperate with PA efforts to deliver the payments.  
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